

Mercantilism was the theory of trade supported by the major European powers from roughly 1500 to 1800. It stated that a nation should export more manufactured goods than it imported. A Nation should also build up as much coin bullion (especially gold) to make the country even richer.

The exportation of finished manufactured goods was favored over farming. The best method of manufacturing goods was for one country to remove raw material resources like wood, sugar, and cotton from another country and make it into more expensive products back home. Wood would become boats, sugarcane would become rum, and cotton would become finished textiles. The country that manufactured the product would then sell the finished goods back to the country that provided the raw materials. For example, England might buy cotton from India for 30 cents a bale, manufacture that cotton into a textile, and then England would sell the cloth textile back to India for over 10 times the profit.

The modern age brought the rise of powerful nation states (the Netherlands, France, Spain and England) and was marked by almost constant warfare. Money (bullion) was needed to support ever-expanding armies and navies. Mercantilist concepts developed from this need to get rich quick. Underlying this theory was the belief that if one nation hoped to grow richer, it had to do so at the expense of some other nation.

The development of colonies became very attractive during this era. Wealth could be kept by a nation if its colonies provided raw materials to the mother country and the mother country could sell finished goods to the colonies.

In England the application of mercantilist theory led to the development of a skilled labor force at home and the creation of a large navy and merchant marine. However, mercantilism also led to inflation and alienation in the colonies.